HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Regina CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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NEW HOME MARKET

Housing starts rebound in 2010

On the heels of a 32 per cent moderation in 2009, total housing starts across the Regina Census Metropolitan Area (CMA) are expected to advance 24 per cent this year as local builders break ground for 1,150 housing units. So far this year, a strengthening economy characterized by job growth, rising incomes, and sustained in-migration has reinvigorated consumer demand, bolstering housing starts. At 921 units, total housing starts to the end of September have outpaced last year's corresponding output of 663 units by 39 per cent. The upturn in activity has been particularly evident in the multi-

Figure 1

Source: Source: CMHC, CMHC Forecast (f)

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† The forecasts included in this document are based on information available as of October 08, 2010.

family housing category. Following two successive years of moderation, multi-family starts are on pace to increase this year.

Despite the strong gain in starts to date, it is unlikely that this heightened pace will continue over the balance of the forecast period. With house prices expected to advance in the months ahead, we anticipate a slower pace of absorptions and an accompanying increase in inventories over the forecast period. Meanwhile, the anticipated slower pace of resale price growth, coupled with the elevated number of active listings, will present increased competition for Regina's new home builders going forward. Consequently, next year, despite an expanding economy with an active labour market, total housing starts across metro will moderate 6.5 per cent as local builders start 1,075 units.

Single-detached starts to stabilize

After a 42 per cent year-over-year reduction in housing starts last year, single-detached home builders are on course to initiate construction on 700 units in 2010, up 23 per cent from the 569 units that broke ground last year. The 531 single-detached units that began construction to the end of September represent a 29 per cent increase from the corresponding period last year when 411 units were initiated across metro.

Last year's slowdown resulted in a reduction of supply and provided builders with an opportunity to rein in the inventory of single-detached units. On a year-over-year basis, the total supply of single-detached homes has declined for 16 consecutive months, reaching 621 units in September 2010, 11 per cent lower than the previous year. The decline was due to a reduction in inventory and fewer units under construction. Accordingly, the 586 singles under construction in September were 10 per cent lower than the previous year, while at 35 units in September, single-detached inventory was down 19 per cent from the corresponding period in 2009.

The 569 completions that were recorded to the end of September represent the second highest tally across metro in the past 23 years. These were surpassed by the 571 absorptions recorded during the first nine months of the year, resulting in a modest reduction in the number of complete and unsold units. Moving forward, we expect that this heightened pace of absorptions will moderate as advances in house prices temper consumer demand. Consequently, we anticipate that completions will exceed absorptions causing inventory to rise in the near future, leading to a slight moderation in the pace of single-detached starts. The increased costs of homeownership will, in large part, be offset by stronger economic conditions and an active labour market that will continue to draw elevated numbers of migrants to Regina, shoring up demand for single-detached housing next year. This sets the stage for another busy year as home builders initiate construction on 700 single-detached units in 2011.

New House Price Index advances moderately

Statistics Canada's New House Price Index (NHPI) measures the price of homes where the specifications remain the same between two consecutive periods. In 2009, the NHPI increased 5.6 per cent, far below the double-digit increases witnessed in 2007 and 2008. This year, price pressures will moderate further before picking up again in 2011. So far this year, Regina's land component of the NHPI has been recording the strongest gains as a result of an increased demand for newly developed lots. Meanwhile, after several months of negligible gains, the house-only component of the NHPI has recently begun to accelerate as the recent uplift in construction exerted upward pressure on the costs of labour and building materials. Despite the recent gains, the expected NHPI increases of 5.2 per cent and 4.2 per cent in 2010 and 2011, respectively, are the lowest since 2002.

Backed by growing wages and historically low mortgage rates, Regina homebuyers continue to purchase higher priced homes. To the end of August, 34 per cent of absorptions occurred above $450,000, up from 19 per cent during the corresponding period last year. This compositional shift will culminate into a 12 per cent rise in the average absorbed price to $428,000 this year. Next year, buyers will face higher monthly carrying costs. In addition, those looking to upgrade their existing homes will carry forward weaker equity gains compared to previous years. Thus, the shift to higher price ranges will slow, with the average absorbed price rising 2.8 per cent to $440,000 in 2011.

Multi-family starts rise in 2010 but will moderate next year

Following two successive years of decline, multi-family starts, which include semi-detached, row, and apartment units, will advance 25 per cent to 450 units in 2010. This comes on the heels of a faster pace of absorption of row and

Figure 2

Source: CMHC

apartment units this year. To the end of September, multi-family starts have totalled 390 units, 55 per cent higher than the previous year. This upturn in multi-unit starts will be short-lived, however, as builders focus on current projects under construction and efforts to rein in supply resume next year.

In August 2010, the supply of multi-family homes was at a historically high 809 units, up 19 per cent from 681 units last year. This was comprised of 68 semi-detached units, 140 row units, and 601 apartment units, and represents a year-over-year increase in each multi-family housing category. This increase can be attributed to the heightened pace of units under construction, but also stems from an increase in the number of complete and unabsorbed units.

At 78 units in August, the inventory of completed and unoccupied multi-family units advanced 70 per cent from the prior year. While lower than long-term historical averages, the elevated inventory will contribute to slower starts next year. Moreover, rising house prices are expected to temper consumer demand. The slower pace of rent increases will also provide a weaker impetus for renters to seek homeownership. This sets the stage for a 17 per cent moderation in multi-unit starts next year as builders break ground for 375 multi-family units.

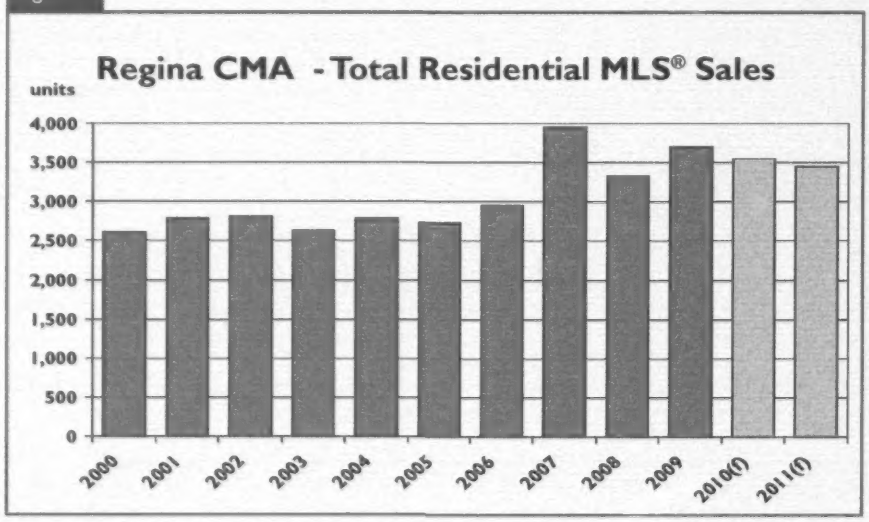
RESALE MARKET

MLS® sales to moderate over forecast period

Due to the slower pace of resale transactions since the second quarter of 2010, residential sales are on course to reach 3,550 units this year, down 4.2 per cent from 2009. To the end of August, resale activity was down 1.6 per cent from the previous year. Moving forward, modestly higher house prices will temper housing demand, curtailing the benefits of an expanding economy and wage growth. This, coupled with the slower pace of rent increases over the forecast period, will further widen the spread between renting and owning, thus diminishing renter movement to home ownership. Accordingly, resale activity in 2011 will moderate a further 2.8 per cent, bringing resale volumes to 3,450 units.

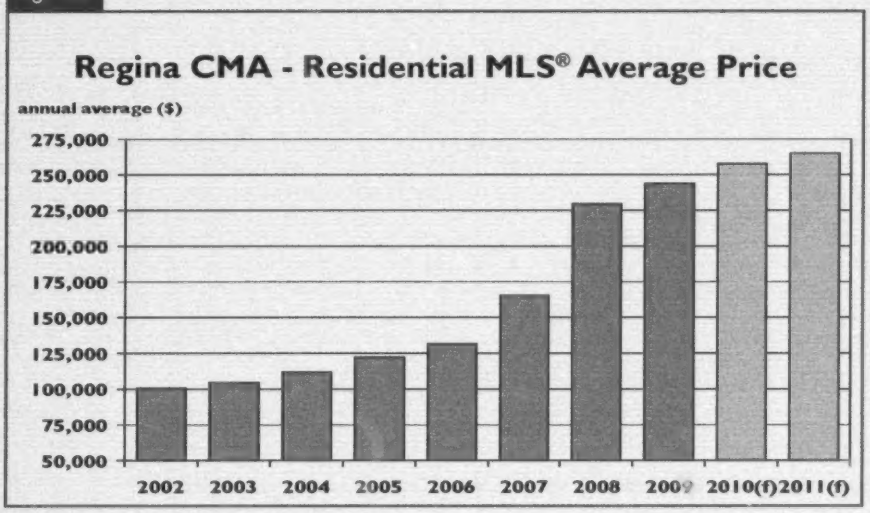
Following double-digit price increases of 26 and 39 per cent in 2007 and 2008, respectively, the average MLS® price increased 6.3 per cent

Figure 3



Source: CREA, CMHC Forecast (f)

Figure 4



Source: CREA, CMHC Forecast (f)

in 2009 to $244,088. This year, an elevated level of listings will restrain resale price growth across Regina, as sellers entertain fewer offers in an increasingly competitive market. The sales-to-active listings ratio, an important barometer of the state of the market, reached 22 per cent in August, a few percentage points lower than the previous year and considerably lower than the peak of 77 per cent in May 2007. Given the recent shift to balanced market conditions, we expect the average price to rise 5.7 per cent to $258,000 in 2010. Next year, heightened levels of active listings will further inhibit price growth with the average price rising 2.7 per cent to $265,000.

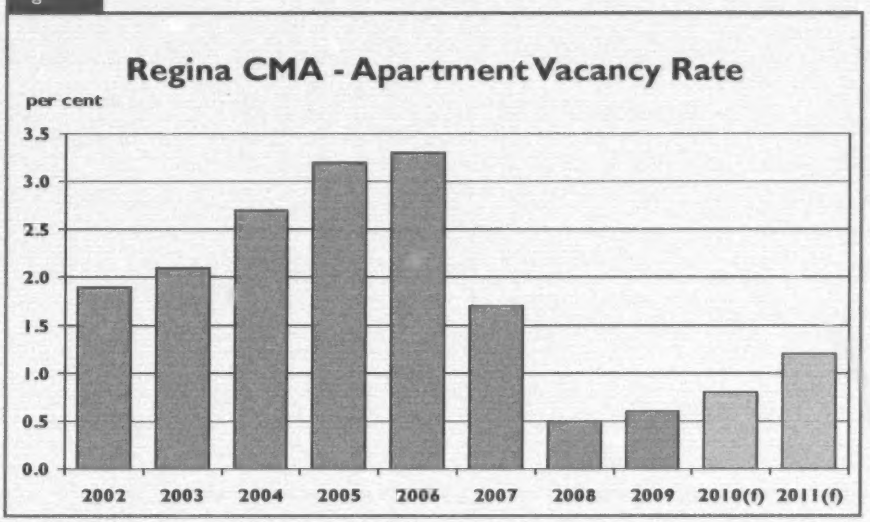
RENTAL MARKET

Average vacancy rate to remain low

With persistent demand and minimal additions to the traditional rental universe, Regina appears set for a third successive year of vacancy rates below one per cent. The region's improving labour market continues to attract elevated numbers of migrants this year, ensuring that current downward pressures on vacancy rates persist. In addition, rising mortgage rates and house prices have widened the monthly expenditure gap between ownership and renting, thus dwindling some of the impetus towards homeownership by renters. This will set the stage for a modest 0.2 percentage point increase, as vacancy rates edge up to 0.8 per cent this year.

Next year, renters in Regina will find it a little easier to obtain a vacant rental unit as the vacancy rate increases to 1.2 per cent. The elevated supply of multi-family units, particularly the 495 apartment units under construction, signals some relief in the months ahead for Regina's renters as some of these units may arrive in the secondary rental market. These secondary rental suites will provide some indirect competition to Regina's rental property owners, especially in the highest rent ranges. Meanwhile, fewer rental units are expected to be lost to condominium conversion, as this is restricted by local policy during periods of low vacancy. Nevertheless, Regina's economy remains strong, ensuring that the CMA will again capture a large share of provincial in-migration. On balance, these factors will account for the increase in average vacancy rates in 2011.

Figure 5

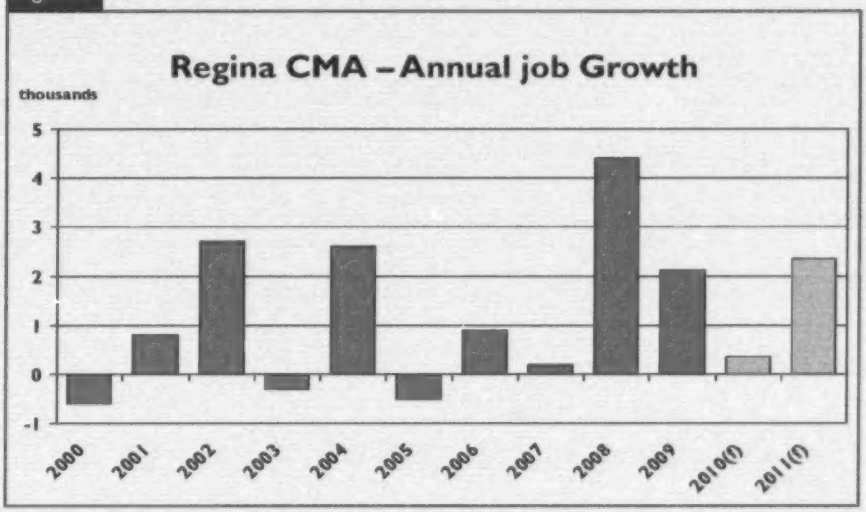


Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

Increases in average monthly rent to ease over forecast period

As vacancies advance in 2010 and 2011, we expect average rents for a typical two-bedroom apartment unit to increase more moderately in Regina. The average monthly rent for a two-bedroom apartment will rise to $875 this year. This represents a $43 increase in the average monthly rent compared to the 2009 survey, considerably lower than the $76 rent increase recorded last year. The pace of rent increases will be subdued in order to minimize the incentive for renters to move to homeownership. Next year the average two-bedroom apartment monthly rent is expected to advance by $20 to $895.

Figure 6



Source: Statistics Canada, CMHC Forecast (f)

ECONOMIC OUTLOOK

Sustained expansion through forecast period

The global economic recovery, in particular, the increase in commodity prices continues to bolster economic activity across Regina in 2010. The economy continues to generate jobs with average employment to the end of August advancing 5.1 per cent year-over-year to top 123,000 positions. This expansion represents the addition of 6,000 workers, of which 3,800 were full-time positions. A significant portion of this growth follows from the increased labour force participation rates observed thus far. Accordingly, at 73.9 per cent in August, Regina's participation rate matched the record high observed in June 2002. This all translates into an active labour market which continues to yield wage increases. Accordingly, year-to-date August, average weekly earnings were up 3.6 per cent, rising to $848 from $818 during the corresponding period last year.

Moving forward, the heightened pace of infrastructure spending is expected to moderate. This should not pose a concern, however, as Regina continues to draw in large amounts of private sector investment in new and on-going capital projects. Major capital projects include the on-going 1.9 billion dollar refinery expansion, which is scheduled for completion in 2012. This will represent the largest capital project in Regina's history, with 1,200 staff on site when construction peaks in 2010-2011. Similarly, development of Regina's 2,000-acre global transportation hub near the airport continues, while construction crews will remain busy completing a $200 million warehouse and distribution centre. Despite these sources of optimism, the subdued price of key resources such as potash and uranium casts some uncertainty over the pace of economic growth. The persistently high value of the Canadian dollar which continues to temper exports to Saskatchewan's primary export market, the United States, is another factor that may inhibit the expansion.

Overall, the stage is set for a 0.6 per cent expansion in employment this year. This will be accompanied by a slight increase in the unemployment rate from 4.4 per cent last year to 4.9 per cent in 2010. Next year, we expect employment to advance 1.8 per cent on the strength of an expanding economy. This will reduce the unemployment rate, and despite steady additions to Regina's labour force, we expect the unemployment rate to average 4.6 per cent in 2011.

Regina set to welcome record number of migrants in 2010

Inter-provincial migration continues to be a key contributor to Regina's elevated migration levels. The capital city's active labour market characterised by its relatively low unemployment rate and rising incomes continues to attract migrants. Accordingly, the region's unemployment rate, while up from the low of 4.4 per cent in 2009, has

averaged 4.7 per cent through the first eight months of 2010, the lowest unemployment rate of any of the major CMAs in Canada. These factors will help push annual net migration in Regina to a record 3,400 people in 2010.

With other centres across Canada set to experience economic expansion in 2011 and with housing costs expected to advance again this year, Regina will lose some of its magnetic draw for migrants in 2011. Going forward, we anticipate that Regina will be increasingly reliant on international migration to maintain the currently elevated levels of migration. Nevertheless, the Saskatchewan Immigrant Nominee Program (SINP) continues to draw increasing numbers of international migrants, most of who choose to settle in either Regina or Saskatoon. This will compensate for some of the shortfall from interprovincial migration. On balance, net migration into metro will decline next year, easing to 3,200 people.

MORTGAGE RATE OUTLOOK

According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

Forecast Summary Regina CMA Fall 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	3,957	3,338	3,704	3,550	-4.2	3,450	-2.8
MLS® New Listings	4,661	6,355	6,219	6,100	-1.9	6,200	1.6
MLS® Average Price ($)	165,613	229,716	244,088	258,000	5.7	265,000	2.7
New Home Market							
Starts:							
Single-Detached	864	979	569	700	23.0	700	0.0
Multiples	534	396	361	450	24.7	375	-16.7
Starts - Total	1,398	1,375	930	1,150	23.7	1,075	-6.5
Average Price ($):							
Single-Detached	305,290	359,795	382,043	428,000	12.0	440,000	2.8
Median Price ($):							
Single-Detached	291,100	333,600	371,438	405,000	9.0	416,000	2.7
New Housing Price Index (% chg.)	22.2	26.2	5.6	5.2	-	4.2	-
Rental Market							
October Vacancy Rate (%)	1.7	0.5	0.6	0.8	-	1.2	-
Two-bedroom Average Rent (October) ($)	661	756	832	875	-	895	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	109,800	114,200	116,200	116,900	0.6	119,000	1.8
Employment Growth (%)	0.2	4.0	1.8	0.6	-	1.8	-
Unemployment rate (%)	4.9	3.9	4.4	4.9	-	4.6	-
Net Migration [1]	2,494	3,183	3,200	3,400	6.3	3,200	-5.9

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

(1) The 2009 migration data is a forecast

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of October 08, 2010.

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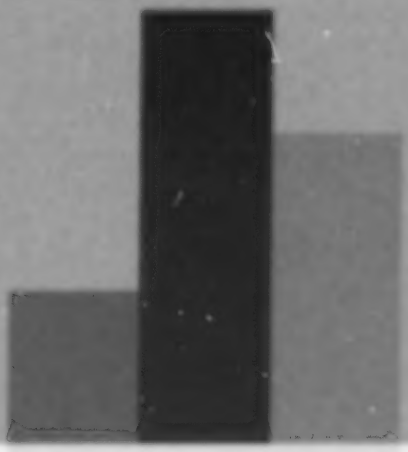

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